

# DIAGEO

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**Dwayne Kratt, Sr. Director State Government Affairs, Diageo**

## **Testimony in support of HB 867 (Alcoholic Beverage Tax – Ready to Drink Cocktails)**

Good afternoon, Madame Chair and Members of the Committee:

My Name is Dwayne Kratt and I represent Diageo, a distiller and brewer of beer products. I am here today in support of House Bill 867 which would reform the tax rate on low-proof alcohol beverages so that the tax rate is fairer and more equitable when compared to like products with similar levels of alcohol.

Currently, spirits based low-proof, ready-to-drink beverages are taxed at a rate of \$1.50 a gallon or almost 17 times higher than malt beverages with similar alcohol by volume or ABV.

To say this in another way, I have three Diageo products:



### **Tanqueray Gin RTDs**

6% ABV – 12 oz., excise tax  
is **14 Cents** for this container



### **Guinness Blonde**

5% ABV – 12 oz., excise  
tax is just **< a penny**



### **Guinness Draught**

4.2% ABV – 14.9  
oz., excise is just **> a penny**

This dramatic tax difference on products with roughly the same amount of alcohol by volume creates an unfair marketplace especially when these products generally compete against malt or sugar-based seltzers that are taxed at the much lower beer rate.

In response, this legislation creates a new low spirit RTD category with a tax rate of 40 cents per gallon for spirit based RTDs at 12% ABV or less. The rate is **still** significantly higher than the beer rate – more than 4 times higher, but it does provide these products with a “fairer opportunity” to compete.

**Do we believe this legislation will cost MD tax revenue?**

No, we don't. The reason is that these products which compete against lower taxed seltzers will still be taxed higher than beer and they will still be sold at a premium price to these seltzers. The result is that we believe the state may gain revenue via increased excise and sales taxes, although not a significant amount.

**Is this proposal outside the norm of what other states are doing?**

The answer to this question is also no. In 23 states, these low alcohol spirit-based products are taxed a lower rate than compared to what I will call "full proof spirits" which are generally 40% ABV. We are also seeing several states contemplate similar legislation to this bill.

**Bottom line is alcohol is alcohol – it doesn't matter if the alcohol is derived from brewing, fermentation or distilling.**

The common metric here is the alcohol by volume. When the ABV is roughly the same, it doesn't matter if the product is a beer, a wine, or a spirit. Anyone who suggests otherwise is incorrect.

In conclusion, we are simply asking for more equitable treatment for similar products.

Thank you for your consideration.